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ABOUT THE AUTHOR

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This article should be of interest to the Congress, the Executive Office of the President, the Postal Service, the Academy, and the private sector. It is a sequel to Comarow's June essay, "What Does Postal Reform Do?", his February 2007 essay, "The Strange Case of Postal Reform", his November 2006 essay, "The U.S. Postal Service is a Government Corporation: So What?", and his September 2006 essay, "The Postal Conundrum." The views expressed in this document are those of the author alone. They do not necessarily reflect the views of any client or of the Academy as an institution.

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THE DYSFUNCTIONAL BEHAVIOR OF MAILERS

BY MURRAY COMAROW

This essay will discuss the role of Congress, postal unions, postmasters, competitors, and the Postal Service itself in creating the conditions that now threaten the organization's viability. It will emphasize, however, the counterfactual behavior of mailers in contributing to those conditions.

The contradictory role of Congress.

I begin with Congress. In enacting the Postal Accountability and Enhancement Act last December, Congress has demonstrated yet again that its long-standing mandate that the Postal Service "operate efficiently and economically" is bogus. The quote is from H.R. Report 91-912 of March 17, 1970, and language enjoining the Postal Service to act like a business has sprinkled congressional reports and statements ever since. Yet Congress has blocked, by statute and its political behavior, any hope that the Postal Service can comply with congressional rhetoric.

The House reneges.

In a recent example of legislative irresponsibility, the House Appropriations Committee deleted the annual \$29 million payment to the Postal Service for discounts to nonprofits, rural newspapers, and mailings for the blind. In the Revenue Forgone Reform Act of 1993, Congress had promised to appropriate that amount every year for 42 years, without interest, to repay the Postal Service \$1.218 billion for discounts Congress had ordered but had not funded in 1991, 1992, and 1993. Fourteen such payments have been made: the current balance is \$813 million. Unions and mailers have expressed their outrage, to no avail. The House passed the bill. If the Senate also reneges on its moral obligation, it will demean itself, as has the House.

You will not find an explanation for this behavior. The June 22, 2007 House Appropriations Committee Report 110-207 says that the committee is "particularly concerned" about plans to consolidate the Bronx mail processing operations into Manhattan, and the Pasadena processing and distribution center into the Santa Clarita and Industry centers. The report commands the Postal Service to "work with community stakeholders and elected officials" on these consolidations and not to proceed pending an Inspector General's report and follow-on actions.

The committee also expressed its concern about the condition of seven postal facilities in Puerto Rico, and one in Indio, California, as well as service problems in Chicago. It urges the Postal Service to work with "local postal managers" on staffing levels. Not a word on the deletion of the \$29 billion. The inescapable inference is, "Fix these things and we'll see about paying our debt." What happened to "transparency"? Let's be clear

about this. The Postal Service runs on customers' revenues. Mailers pay when cost-cutting measures are blocked.

In one sense, however, mailers may pay the piper for their failure to stand up for their own pocketbooks. When legislation was proposed that would permit nonprofits to send First-Class standard mail at 60 percent of identical business mail rates, there was virtually no protest by business mailers. Since they would be subsidizing nonprofits, I was stunned, and asked why. "It's a done deal," they said. "I'd just waste my political capital." I found this passing strange, and still do.

Without business mailer support, the Postal Service itself did not mount a defense, although one was obvious. They could have said, "You tell us to act like a business. What business is required by law to give nonprofits a 40 percent discount? This will cost over a billion dollars a year."

Congress inserts itself into the contract delivery issue.

When collective bargaining on a new National Association of Letter Carriers contract failed, the impasse, like other impasses, was heading toward binding arbitration. Congress has granted this unique right only to postal unions. Rather than risk an arbitrator's decision, however, NALC lobbied Congress to strip the Postal Service of its long-standing ability, under certain conditions, to contract for delivery services. Only two percent of its delivery stops have been contracted out. (City carriers deliver 68 percent of the mail, and rural carriers 30 percent.) The Post Office used private deliverers, like the Pony Express, since the founding of our nation.

NALC evidently recognized that its position could be viewed as an unwarranted deviation from union contracts for 34 years. It thereupon relabeled this collective bargaining issue a "public policy" issue. It was supported by two other unions, and by postmasters and supervisors. American Postal Workers Union President William Burrus correctly decried the NALC initiative as interference with collective bargaining. Senator Tom Harkin (D. IA) promptly introduced S. 1457, the "Mail Delivery and Protection Act of 2007," which would severely limit outsourcing. Rep. Albio Sires (D. NJ) introduced non-binding H.R. 282, which would stop outsourcing completely. The Senate bill was co-sponsored by a third of its members; the House Resolution by 235 members.

Senator Harkin conceded that "the business case for contracting out may appear initially attractive . . ." but concluded that "costs to the Postal Service in the degradation of service quality and reliability are greater than the savings achieved." No evidence was offered to support this naked assertion. He was trumped, however, by presidential hopeful Rep. Dennis Kucinich (D,OH) who asserted that contracting out deliveries would endanger national security.

Some mailers urged Congress, as had the APWU, not to interfere with collective bargaining. They failed, however, to condemn this extreme case of Congressional

micromanagement and its adverse cost consequences. The average annual cost for each NALC delivery is \$215, compared to \$106 for contract delivery.

Faced with the likelihood of losing this sparingly-used management tool, the talks were revived and agreement reached. As is conventional in such situations, the contract was praised by both parties. NALC President William Young said, "This agreement represents collective bargaining at its best. It's a win-win deal for the Postal Service and the nation's city letter carriers." Postmaster General Jack Potter also said it was win-win. Perhaps it is a reasonable agreement, but negotiating under a legislative hammer, coupled with binding arbitration, is not really collective bargaining. PostCom Vice President Kate Muth wrote that "Congress is heading from oversight to meddling, with a threat of micromanagement." Actually, it's a reality, not a threat.

Labor costs continue to consume almost 80 percent of revenues, no change for forty years. Comparable percentages of United Parcel Service labor costs are 56 percent; FedEx, 42 percent. Wages and benefits averaged \$62,348 last year, and the new NALC agreement would add \$4,200 over its span, plus \$686 COLA. According to Mike Causey's Federal Report, postal workers "get the same [health insurance] coverage, at about half the cost, as most other feds." Causey's examples: A single federal employee or retiree enrolled in Kaiser's Standard HMO plan pays \$510 in premiums; a single postal worker pays \$230. In Blue Cross-Blue Shield Standard Option, a fed or retiree pays \$1,120; postals pay \$590. Postal ratepayers make up the difference.

Congress fails to halt pension overpayments.

In 2003, at Senator Lieberman's request, the then General Accounting Office pressed the Office of Personnel Management to review the amounts it had billed the Postal Service for its pension obligations. OPM conceded that it had overcharged the Postal Service for years. About \$85 million was at stake. Congress temporarily removed this burden, but failed to amend a law that required the Postal Service to deposit these payments into an escrow fund. This would result in "a double digit rate increase in 2006," said PMG Jack Potter, and he was right.

Calling it a "Stamp Tax," business mailers, for once, organized themselves into a potent political force, orchestrating its efforts as other major groups have done when seriously threatened by Congressional action or inaction. Congress ultimately staved off what might have been a 15 percent rate increase, although it did not fully resolve the issue.

The pension overpayments languished in an escrow account, held there by a White House obsession with "budget neutrality," pretending that overpayments by postal customers to a self-supporting Postal Service had anything to do with the deficit. One mailer described the Administration's position this way, "We stole the money fair and square and we're keeping it."

Ironically, one reason mailers supported enactment of PAEA was their hope of getting their money back in the form of lower rates. Fat chance. Instead, the Postal Service

(meaning customers) will continue to pay most health insurance premiums plus \$5.4 to \$5.8 million a year for the next nine years. The postal deficit is almost entirely the result of these payments. On April 14, 2007 GAO representative Katherine Siggerud cautiously testified: "Beginning in 2017, the [Postal] Service might enjoy a significant reduction in its retiree health costs if its obligations are fully funded." [My emphasis.]

Mailers often don't act in their own interests.

With occasional exceptions, mailers don't vigorously resist threats to their organizations. That is certainly not the case with other components of the postal community. Postal unions guard and advance their interests: Get everything you can through collective bargaining. If that doesn't work, go to arbitration. If that may not work, run to Congress. In the long run, rising costs will lead to higher rates and reduced volumes. Unions may end up like the automobile or airline workers, but in the meantime, they're looking out for themselves.

Postmasters and supervisors are a different story. Their resistance to closing small post offices and opening more contract retail units is understandable and virtually automatic. There are only 400 of the latter, and they are often highly valued because they stay open more hours than a post office. Joining with unions to circumvent collective bargaining, however, exposes them to justified criticism. Are they not concerned with rising costs that reduce volume and revenue? Are they a kind of quasi-union? Postmasters sought legislation about two years ago that would give them binding arbitration on compensation, like unions. Hmm. Still, they're looking out for themselves.

Competitors are alert for every chance to advance their cause. Their lobbying is intense, their contributions immense, and they are sometimes guilty of overbearing tactics. United Parcel Service has urged the Federal Trade Commission to focus on the Postal Service's advantages, not on its burdens, constraints, and its limited ability to control costs. Of course. They're looking out for themselves.

So we come to the mailers, post-PAEA. Recall that Chairman James Miller and PMG Jack Potter had testified that the Postal Service business model was broken. Only a month before PAEA was enacted, Comptroller General David Walker said, and his representative later testified, that the USPS business model was "unsustainable." One reason these warnings were ignored was the rate cap. Beloved of mailers, it may be ignored by arbitrators. This may be unlikely, but when officials have power, they tend to exercise it. An arbitrator's award is unappealable.

Even if arbitrators respect the cap, I doubt that the Postal Service can live under it. Costs, including wages, benefits, and energy, are rising more rapidly than the Consumer Price Index; profitable first-class mail is down; delivery points are up about 1,800,000 a year; and Congress gets in the way of cost reduction efforts. What business is required to keep its prices under the CPI?

The PRC and levels of trust.

On August 14, PRC issued its proposed rulemaking procedures for comment, with a September 28 deadline. Chairman Dan Blair repeated his earlier commitment to issue final regulations by October's end, ten months ahead of the PAEA due date. Like mailers and some members of Congress, he urges the Postal Service not to file a rate case under existing rules, but to await the new procedures. The Postal Service has refused to commit itself. Contemporaneously, the Federal Trade Commission is engaged in a PAEA-directed study of Federal and state laws on competitive mail that apply differently to USPS and the private sector.

In connection with that study, Commissioner Ruth Goldway decided to steer FTC on a proper path. Her July 2, 2007 letter, urges FTC "to fully assert their broad statutory responsibilities to oversee" the Postal Service. "Just as private corporations need protection from a \$70 billion government monopoly, so do customers who . . . are often overwhelmed by the difficulties of seeking redress through unresponsive and/or unavailable clerks, offices, and telephone lines." "We look to the FTC," she wrote, "to make the Postal Service act as a truthful and honorable corporate citizen. . . ."

Despite the "We," I note that Mrs. Goldway said that she was not writing for the entire commission. Does she reflect similar mindsets among her colleagues? I seriously doubt it, but if that is the case, and if FTC embraces her views, that will take micromanagement to a new dimension. FTC is not tasked or staffed to deal with another agency's "unresponsive and/or unavailable clerks, offices and telephone lines."

As to Mrs. Goldway's other comment, for one of five regulators in one government agency to ask a second government agency to help get a third government agency to act truthfully and honorably is peculiar, to say the least. It goes beyond legitimate criticism, and is an affront to the appointed and career men and women who run the Postal Service.

Postal officials could have responded that the Ponemon Institute rates the Postal Service in the top ten of the most trusted public or private institutions in the nation. Congress and the Administration, with public approval ratings in the thirties, would give their eye teeth for a comparable level of trust. The Battleground Poll (Washington Post, July 27, 2007), reported that most Americans feel that most politicians are not trustworthy. Further, 71 percent believe that their own member of Congress puts partisan politics ahead of constituents' interests, a new and disturbing finding, probably the result of unrestrained earmarking, unethical behavior, and partisan polarization more bitter than anything I've seen.

Update on earmarks from the New York Times, August 12, 2007: "Despite promises by Congress to end the secrecy of earmarks and other pet projects, the House of Representatives has quietly funneled hundreds of millions of dollars to specific hospitals and health care providers. . . . The bill describes [the hospitals] in cryptic terms, so that identifying a beneficiary is like solving a riddle. Most of the provisions were added to the bill at the request of Democratic lawmakers."

Must monopolies be regulated?

In the private sector, companies (monopolistic or not) are run by boards of directors to maximize profits. Their primary duty is to shareholders, as it should be in a free enterprise economy. (The mounting avarice, corruption, and outright criminality in some of our biggest corporations demand closer scrutiny, but that's an issue for another day.)

Government monopolies are different. The government corporations that manage them may be effective or ineffective, wisely or poorly conceived, but they are run by boards or commissions appointed and confirmed to benefit a public interest, not shareholders. In general, their boards set prices or fees within statutory guidelines, and must, of course, comply with constitutional due process requirements.

The Postal Service is one of eighteen such government corporations, and the only one regulated--more to the point, substantially managed--by the PRC and other agencies. Business executives should be the first to deplore bureaucratic layering, but not when it comes to the Postal Service. In any event, the letter monopoly is a shadow of its former self. Senior Vice President for Operations William Galligan's July testimony before the House postal subcommittee encapsulated reality. "The traditional postal monopoly, while it still exists as a matter of theory and law, . . . does not exist in actual practice."

The Postal Service's political behavior.

The Postal Service has long employed an overly cautious, minimalist approach in dealing with Congress. The converse was true of PMG Winton Blount. Building on the Kappel Commission's 1968 report, and aided by his predecessor, Larry O'Brien, he led a relentless and largely successful campaign for postal reform in 1969-1971. Otherwise, boards of governors and postmasters general have rarely made their case to Congress plainly and publicly.

This has changed in recent years, but not enough. It was admirable that the present Board of Governors informed the Congress that it would prefer no bill at all to the bill that was enacted, but the Board should have tabled its own draft bill, and done so much earlier in the process. A bipartisan nine-member board, appointed by the President and confirmed by the Senate, should have more impact. PMG Marvin Runyon and other postal leaders said more than once, "Why should I send something to the Hill that's DOA?"

Runyon's question deserves an answer. Failing to take clear and open positions in the hope that behind-the-scenes efforts will succeed hasn't worked. Maintaining good and continuing relationships with Congress is essential, but must be bolstered by specific legislative alternatives, strongly defended. Such initiatives may not succeed, but they have a fighting chance. Even if defeated, they may attract support in time. Not stepping up to the plate represents defeat by self-negotiation.

There are other shortcomings. Marketing has never become a strong part of postal culture, and often enjoys an uncomfortable relationship with mailers. Public information

outreach has not been noteworthy. Mailers want better standards and measurements for delivery, and Miller conceded in his April 17, 2007 testimony, "We need better metrics on performance." (He added George Mason University President Alan Merten's quote: "What gets measured gets better." Not always. People may respond to measurements by playing the system. If I decide to pay a bricklayer by the brick instead of by the hour, I better check the wall to make sure it's straight and true.)

I remain convinced, however, that the Postal Service has done remarkably well, especially in recent years. I'm not at all convinced that it can continue to do so. It will have to satisfy a Congress that gets in the way of whatever management authority it has left. It must satisfy a powerful, potentially invasive PRC. Treasury, the Office of Personnel Management, and the aforementioned Federal Trade Commission, have statutory mandates. This costs money and consumes management's time and energies. It doesn't sort mail and get it delivered.

International mail.

In the international area, the Department of Transportation, not the Postal Service, sets rates for international mail transportation. At market rates, USPS would have saved up to \$98 million last year. The Department of Commerce, Department of Homeland Security, and the Office of the Special Trade Representative all play a part.

What about privatization?

Remember this if things get worse: Even as the business model became more and more "unsustainable," the workforce dropped almost 100,000 people in about five years, despite more deliveries and no layoffs. First-class letters in industrialized nations cost more than here: Norway: \$1.22; Sweden: 83 cents; New Zealand: 79 cents; Germany: 76 cents; France: 75 cents; Great Britain: 69 cents; Japan: 66 cents; the Netherlands: 61 cents; Canada: 53 cents. The 41 cent stamp today is cheaper in current dollars than the eight cent stamp in 1968. Check it out.

Arguments for privatization, corporatization, deregulation, commercialization, and their cousins, have been largely ideological, or, as I have argued, "faith based." Difficulties abound. The European Union has delayed full liberalization for letters under 50g (1.75 oz.) from 2008 to 2011. Only TNT Post in the Netherlands and Deutsche Post in Germany are fully privatized and trade shares publicly. Deutsche Post continues to be price-regulated by the government's Regulatory Authority for Telecom and Post. Sweden, New Zealand, and Great Britain are "corporatized" but are 100 percent owned by their governments.

The condition of Great Britain's Royal Mail should be examined by deregulation advocates. An August 12, 2007 Financial Times editorial describes its operations as a "shambles," and asserts that "loss of market share lies at the heart of Royal Mail's problems." One of five letters is handled by private companies that "focus on profitable business such as large corporate delivery contracts." Financial Times recognized that

“the costly duty of providing a universal service leaves the state-owned operator at a disadvantage,” and states that “In a deregulated postal services industry the state-owned Royal Mail is hamstrung.”

It nevertheless concludes, as a steadfast spokesman for limiting government, that the solution would be to privatize the mails. In fact, it asserts, “Had [the Royal Mail] been privatised 10 years ago, it would not be in this situation now.” The Financial Times does not know what situation it would have been in. It can only speculate. When the PRC ponders changes in universal service and the monopoly, informed and credible views on European posts should be given more weight than the picture painted by ideologues or by officials of those posts.

Research into various forms of postal organization should attempt to answer the overarching question, “What kind of postal service would best serve the interests of our nation?” I presented this question to the 2003 presidential commission, but they did not deal with it. It still needs an answer. I’d like to see a couple of top business schools, funded by mailers, competitors, unions, and the USPS itself, jointly study the issue, as well as the impact of PAEA on management.

The elephant in the room.

One major mailer who had it right was James West of Williams-Sonoma in his August 2, 2007 testimony before the Senate postal committee. His company will spend about \$140 million this year to mail 390 million catalogs, and other pieces. He said, “The Postal Service must be allowed greater flexibility to change and modify its own operating network and services. Without the ability to manage its own infrastructure, free of the influence of outside bodies, it cannot be expected to fully control the costs which have a direct impact on its ability to continue to offer efficient and cost effective services and products.”

But even the estimable James West chose to ignore the elephant in the room. “Greater flexibility” will not alter the stark fact that the 1970 Act created and the 2006 Act affirmed labor’s right to bargain for wages and other benefits, with an arbitrator in the wings if there is an impasse. No other federal employees have or ever had this extraordinary benefit, negotiated in 1970 as a political deal to minimize union resistance to postal reform. There’s a recurrent myth that the unions gave up their right to strike in exchange for binding arbitration. They never had such a right.

The Postal Service made a bad situation worse in its first collective bargaining agreement after the 1970 Act. Section 1003 provides for compensation and benefits “paid for comparable levels of work in the private sector. . . .” This was designed to mean wages for comparable jobs. The clerks’ union argued that it must be interpreted to mean comparable to wages in other highly unionized industries, such as steel. They also demanded no-layoff provisions, automatic cost-of-living adjustments, and more. I was one of five Senior Assistant Postmasters General at the time. We were consulted, and advised standing fast. PMG Elmer Klassen, former president of American Can, had

placed about a dozen company people in various jobs, including James Blaisdell and Darrell Brown, reputedly tough labor negotiators, for labor matters.

The union won on all issues. Klassen caved, and mailers are still paying the price. Without excusing Klassen and his cohorts, it is only fair to point out that he was being besieged by mailers urging him to settle. On St. Patrick's Day of 1970, Letter Carriers Branch 36, covering Manhattan and the Bronx, had walked out. Other unions followed, and shut down 671 post offices, including the nine biggest. The strikes inflicted grave damage on the economy, and caused widespread human distress. They were unlawful, but not one strike leader or striker was punished. Remembering that, the unions threatened another strike. Mailers panicked and pounded on Klassen. End of story.

The effects of PAEA.

The Postal Service will continue to exist. Good men and women can make a badly designed organization work, although it will not work as well as it should. A log can be rolled from A to B, or it can be dragged. Rolling it is easier and cheaper. In time, it may become evident even to congressmen up for reelection that they are weakening an important part of our society. Sixty years ago, the Hoover Commission said, "The Post Office should be taken out of politics," and to some extent, it has. The Postmaster General is appointed by the Governors, not the President. USPS doesn't depend on appropriations. The party in power no longer appoints about 36,000 postmasters and rural carriers. The 1970 Act bars members of Congress, among others, from making any recommendations to the Postal Service concerning appointments and promotions.

PAEA and political interference, however, have drawn the Postal Service into a political vortex. The Postal Service's ability to manage has been significantly narrowed. This loss of authority cannot be quantified, but it is a safe assumption that it will have regrettable and perhaps crippling effects. Some who have supported PAEA are already beginning to realize this.

My candidate for PAEA's most absurd provision is section 3662(d). In cases of "deliberate noncompliance," PRC may fine the Postal Service "for each incidence [sic] of noncompliance." Since the Postal Service is supported by mailers' revenues, postal customers will pay if USPS officials are bad boys and girls. Incidentally, the statute sets no limit on the amounts of fines. Think about that.

What drove Congress to this point? Congressional staffers have responded to this question candidly, "We had to craft a bill that gave something to everyone." They admit that the unions, postmasters and big contributors are at the head of the line, but "that's politics."

Political reality and compromise are not exactly new to me, but the process should never lose sight of a basic organizing principle, authority to manage. To hold postal officials accountable while diluting or destroying their ability to manage is nonsensical and unfair.

I wonder if any member of Congress will one day stand up and utter the simple truth that Congress has made it impossible for the Postal Service to run like a business. That may not help, but it would at least be "transparent."